

Energize Indiana:

A Vision for Indiana's Future

Governor Frank O'Bannon
Lieutenant Governor Joe Kernan

synergy (sɪn'ɜr-jē)

The interaction of two or more agents or forces so that their combined effect is greater than the sum of their individual effects.

energize (en'ɜr-jīz')

To give energy to; activate or invigorate.

American Heritage® Dictionary

When the administration of Governor Frank O'Bannon and Lieutenant Governor Joe Kernan last year set about passing two comprehensive plans to address needs in Indiana, they recognized the **synergy** that connected the two efforts. They recognized too that the good that could result if both plans were adopted was greater than the sum of their individual benefits. The plans were ultimately combined into one legislative bill because it was clear to all involved that they were inextricably intertwined.

Clearly, a strong economy, fueled by common-sense governmental actions and a realistic tax code, generates the dollars needed to adequately support the services citizens desire, including health, safety and education – top-notch K-12 public schools, an emerging Community College system that provides an alternative form of higher education and world-class universities.

Conversely, an excellent educational system fuels the economy. From their earliest years, students learn what they will be expected to know to win high-skill, high-wage jobs and compete in a global economy. Universities find candidates to conduct research and development – and to conceive of new concepts never dreamed of before. And businesses can tap well-prepared workers to fill new jobs they create.

The combined effect – the synergy – results in a vibrant state that makes life better for its citizens and helps them realize their potential.

A national recession slows the process, but does not alter it. Indeed, it is never as obvious as in a recession that leaders must do all they can to provide lifelong educational opportunities for individuals and provide other important services to individuals and businesses to help them weather the economic storm.

That synergy is the bedrock of this initiative. Indiana has been pummeled by the national recession, harmed more than many other states. It is imperative that we diversify our economy to ensure that Indiana citizens suffer less in future recessions, our citizens' quality of life continues to improve and state government has adequate resources to maintain vital services, such as the CHOICE program for home health care for seniors; the Children's Health Insurance Program; Medicaid health care for poor and disabled people; and continuously improving schools. It also is imperative that we keep a steady hand on the tiller, providing reliable services even in difficult times, so the state remains attractive to businesses considering expanding or locating here – and thus creating jobs here.

And it is imperative that we **energize** Indiana *now* so that we can emerge from the recession as a stronger state.

Energize Indiana ... a 10-year, \$1.25 billion initiative for Indiana's future.

The O'Bannon-Kernan administration proposes to invest \$1.25 billion over 10 years – and to leverage more money from other sources, both public and private – to be used to:

- Sustain continuous improvement in Indiana's K-12 classrooms
- Increase the number of Hoosiers enrolled in higher education
- Diversify Indiana's economy with special focus on creating high-skill, high-wage jobs
- Recruit and assess workers
- Help existing businesses expand
- Stimulate research and development by universities and the private sector
- Build research parks and laboratory capacity
- Encourage new entrepreneurs by providing greater access to venture capital
- Foster partnerships between universities and the private sector
- Help businesses retain good workers
- Develop rural communities
- Extend unemployment benefits

The administration also encourages the legislature to:

- Permanently set the tax credit for research and development at 10 percent. The rate, now 10 percent, is due to revert to 5 percent after 2004.
- Reduce the 30 percent floor on the business personal property tax.
- Authorize a referendum on amending the state constitution to eliminate the requirement that inventory be taxed.
- Target Skills 2016 training funds to workers in the four industrial sectors.

Energize Indiana will invest:

- **\$360 million** in the new Indiana Growth Fund, which will be directed to the 21st Century Research and Technology Fund and to efforts to move ideas to the marketplace
- **\$40 million** to establish technology centers or parks
- **\$42 million** in rural development
- **\$75 million** in university research construction projects
- **\$200 million** in K-12 education
- **\$135 million** for scholarships for college students studying in four targeted industrial sectors
- **\$35 million** in the State Student Assistance Commission of Indiana
- **\$50 million** in assessing skills of Hoosier workers and matching them with jobs
- **\$60 million** to extend unemployment benefits
- **\$50 million** to modernize and simplify the state's unemployment insurance system
- **\$100 million** for "alternative" investments of pension funds
- **\$100 million** in low-rate financing for public and private projects

Energize Indiana will tap:

- **\$692 million** from securitizing tobacco settlement proceeds
- **\$195 million** from tobacco settlement trust fund deposits
- **\$160 million** from the federal economic stimulus package
- **\$100 million** from PERF and TRF alternative investments
- **\$100 million** from debt issued by the Indiana Port Commission

Energize Indiana. . . the next logical step to enhance economic well being for Hoosier families – and the state – after:

- Passage of the historic business tax restructuring, which makes Indiana more attractive to businesses that create jobs and cut individuals' property taxes.
 - The research and development tax credit was increased to 10 percent
 - The business inventory tax will be eliminated in 2007
 - The corporate gross income tax was eliminated
- Continuous – and ongoing – improvement in Indiana's K-12 educational system.
- Creation of the Community College of Indiana, which provides an alternative for Hoosiers who seek higher education and a step toward a four-year degree.
- Modernization of the Indiana Department of Commerce, including creation of 12 regional offices, putting Indiana in a better position to act locally and think globally.
- Creation of the 21st Century Research and Technology Fund, which has awarded more than \$49 million to 43 joint university/private sector projects, leveraging \$95 million in matching funds
- Indiana's move to 12th place among the states in exports
- An investment of more than \$500 million for road construction and repair across the state through Crossroads 2000
- The strategic investment in 2000 of:
 - \$200 million for local road construction
 - \$155 million for state infrastructure
 - \$80 million for university buildings
 - \$82 million for university technology.

Energize Indiana builds on Indiana's strengths, including its strong work ethic, its dedicated workforce, its world-class research universities and its central geographic location.

Energize Indiana will, among other things, focus on four industry sectors to which Indiana has a legitimate claim:

Advanced manufacturing

- Automotive and electronics
- Aerospace technology
- Robotics
- Engineering design technology

Life sciences

- Orthopedics; medical devices
- Biomedical research and development
- Pharmaceutical manufacturing
- Agribusiness
- Nanotechnology; molecular manufacturing

Information technology

- Infomatics
- Certified network administration
- Software development
- Fiber optics

21st century logistics

- High-tech distribution
- Efficient, effective flow and storage of goods, services and information
- Intermodal ports

Why these four sectors?

The most important reason the O'Bannon-Kernan administration is focusing on these sectors is to diversify the economy, making it more resilient in downturns. Life science industries, for example, tend to be non-cyclical and have high growth potential and high wages.

In addition, Indiana's universities – both public and private – are renowned for their capabilities in advanced manufacturing, life sciences and information technology. Our existing inventory of businesses already boasts some of the country's leading contributors to the life sciences and advanced manufacturing, and thousands of Hoosiers are already employed in information technology firms.

As for 21st century logistics, Indiana *is* the crossroads of America. Global Business magazine recently called it "a logistics manager's dream come true."

Investments:

\$692 million from securitizing tobacco settlement proceeds:

Indiana is due to receive between \$132 million and \$196 million each year through 2023 from the settlement of a nationwide lawsuit against the tobacco industry. Under state law, 60 percent of the yearly allotment is invested in health programs, including prescription drugs for seniors – and the O'Bannon-Kernan administration will continue this vital investment.

The remaining 40 percent goes into a trust fund. The O'Bannon-Kernan administration proposes to sell bonds to immediately realize a large percentage of that expected revenue and to invest the proceeds.

Some states have used the proceeds from a bond sale to plug a hole in their budgets. But the administration believes there is an enormous difference between using the proceeds from securitization to spend one time like cash and investing it in our state and our citizens' future.

Of the total \$692 million in proceeds plus interest, which will be deposited in the new Indiana Growth Fund, **\$360 million** (\$36 million a year) will be directed to:

- **Research and development.** The Indiana 21st Century Research and Technology Fund, which makes grants to companies and universities, will be enhanced.
- **Moving ideas to the marketplace.** The Indiana Development Finance Authority will serve as a financial catalyst, leveraging private-sector expertise and investment to bring new technologies to market.

In Year 1, 90 percent of the proceeds will go into the 21st century fund, with 10 percent going to move ideas to the marketplace. New research will be getting off the ground and will need an infusion of cash.

In each successive year through Year 4, the percentage of proceeds to the 21st century fund will decline, while the percentage to move ideas to the marketplace will increase – theoretically, to handle the growing need for that purpose. In Years 5-10, the funds will receive an equal amount.

Year	R&D	Ideas to market
1	\$32.4 million	\$3.6 million
2	\$28.8 million	\$7.2 million
3	\$25.2 million	\$10.8 million
4	\$21.6 million	\$14.4 million
5-10	\$18 million/year	\$18 million/year

Technology centers:

- **\$40 million** will establish technology centers or parks around the state. HEA 1424, passed in 2001, allows regional technology centers to be established and HEA 1001(ss), passed in 2002, contained language about certified technology parks. Communities that help themselves by using tax-increment financing or local option income tax revenues to finance such centers would be rewarded with matching funds from the state for their

initiative. In addition to providing money to build and equip facilities, the state will commit \$250,000 annually for four years for staff and other operating costs.

Rural development:

- **\$42 million** will be used to:
 - More than double the size of the state's Value-Added Grant Program, which provides money for research into new uses of agricultural products.
 - Create the Rural Development Administration Fund to develop a pilot program focused on rural development; establish a revolving loan fund for industrial, commercial, agricultural, entrepreneurial or tourist ventures; provide loans for economic development projects; provide technical assistance to rural organizations; and address telecommunications needs in rural areas.
 - Fund the Indiana Rural Development Council and regional rural councils.

Capital projects:

- **\$50 million** will be used to service the debt incurred by selling bonds to construct university research and laboratory facilities that serve the four targeted industry sectors.

K-12 education:

- **\$200 million** will be invested in education in the next biennium to supplement the state's commitment to school accountability and higher standards through Public Law 221.

Good schools are part of any economic development program because they prepare our youth for future careers and provide companies with both skilled workers and a high quality of life for their employees.

In addition, while not part of Energize Indiana, the state will receive more than \$67 million a year in additional federal money to support the No Child Left Behind program. This money will be used to implement Indiana's improvement measures.

\$195 million from the tobacco settlement trust fund:

This fund has \$277 million on deposit, the use of which has not been determined. The O'Bannon-Kernan administration believes that, during difficult economic times, government should use such a trust fund not as a one-time BandAid solution to budgetary problems but as an investment in its people and their future. To that end, the administration will:

- Invest **\$135 million** in the four-year **Indiana Growth Scholars Program**, which provides scholarships for as many as 22,000 students who pursue college studies in the four targeted areas.
 - The program offers up to \$4,000 a year for four years
 - A recipient would have to serve an internship, similar to student teaching, for which he or she would receive six credit hours
 - A recipient would have to remain in Indiana after graduation at least one year for each year he or she received a scholarship, or repay the scholarship

- Employers would receive a \$500 tax credit for providing an internship or for employing a scholarship student after graduation
- **\$35 million** over the upcoming biennium to make up an expected shortfall in what is needed by the State Student Assistance Commission of Indiana to fund its obligations to low-income students. The shortfall occurred as a result of double-digit increases in universities' tuitions.
- **\$25 million** over the next four years in university capital construction projects. Indiana cannot grow if it does not invest in facilities and equipment where scientists can perform their experiments, computer experts can develop new applications and students can learn.

This money, combined with \$50 million in proceeds from securitization, will provide universities with \$75 million over 10 years for debt service on bonds that will pay for \$232 million of construction. O'Bannon and Kernan propose these projects, which can leverage high federal research dollars and clearly serve the targeted sectors:

- Indiana University, multi-disciplinary science building, phase II, Bloomington
- Purdue University, millennium engineering building, West Lafayette
- Purdue, biomedical engineering building, West Lafayette
- IUPUI, research institute building III, Indianapolis
- IUPUI, information sciences building, Indianapolis

The remaining \$82 million will remain in the trust fund.

\$160 million from the federal economic stimulus package:

The U.S. Congress in March passed an economic-stimulus package that extends unemployment insurance payments for workers by 13 weeks and provides up to \$8 billion to the states to help employers find skilled workers for high-wage jobs and to administer unemployment and employment services. Indiana received \$175 million, and will invest **\$160 million** to:

- Assess the skills of 30,000 Hoosier workers; determine the skills required for 1,800 selected job categories; match workers with the jobs; and recruit workers. **\$50 million.**
- Extend unemployment benefits to Hoosiers who cannot find work within the normal benefit period. Just as the federal government included money to extend unemployment benefits in its stimulus package, the O'Bannon-Kernan administration believes this measure provides a financial bridge to Hoosiers who need help now, during the recession. **\$60 million.**
- Modernize and simplify the state's unemployment insurance system, allowing recipients to receive their checks more quickly and enabling businesses to pay unemployment taxes online. **\$50 million.**

The remaining \$15 million in economic stimulus funds will remain in the state's Unemployment Insurance Trust Fund.

\$100 million from PERF and TRF alternative investments:

The Public Employees Retirement Fund and the Teachers Retirement Fund have made decisions to invest up to 5 percent of their portfolios in "alternative investments," such as

venture capital, real estate and buyouts. Alternative investments lead to greater diversification of the funds, and thus greater safety for members. They also traditionally have led to higher returns.

The O'Bannon-Kernan administration will encourage PERF and TRF to direct at least **\$100 million** of those investments over the next decade to business ventures in Indiana in the four targeted industry sectors. This recommendation is subject to each fund meeting its fiduciary commitment to its members.

\$100 million from debt issued by the Indiana Port Commission:

Several states recently have allowed their port authorities to finance development statewide, providing low-rate financing for public and private projects. The O'Bannon-Kernan administration will encourage the commission sell bonds to invest at least **\$100 million** over 10 years to help companies in the four targeted sectors and around the state – not just at ports – to create high-wage, high-skill jobs and to build infrastructure to accommodate them.

The administration also will work with the commission to develop an intermodal rail port. Intermodal rail shipping, which moves cargo using more than one mode of transportation, is the fastest-growing segment of freight transportation today.

TOTAL INVESTMENT = \$1.247 billion

How will we know if we have succeeded?

There is little that one state can do to combat the vast effects of a nationwide recession. But Governor O'Bannon and Lieutenant Governor Kernan are unwilling to sit by, wringing their hands and bemoaning the difficulties that have befallen Indiana and nearly every other state.

They believe action is needed. And they believe that Indiana will see the results – and reap the benefits. If lawmakers join with the O'Bannon-Kernan administration to put the provisions of Energize Indiana into the law, we believe that, in the next 10 years, we will:

- Create 200,000 new high-wage, high-skill jobs in the four targeted sectors
- Enroll 200,000 additional students in higher education and credential programs
- Grow per capita income faster than the national average.